

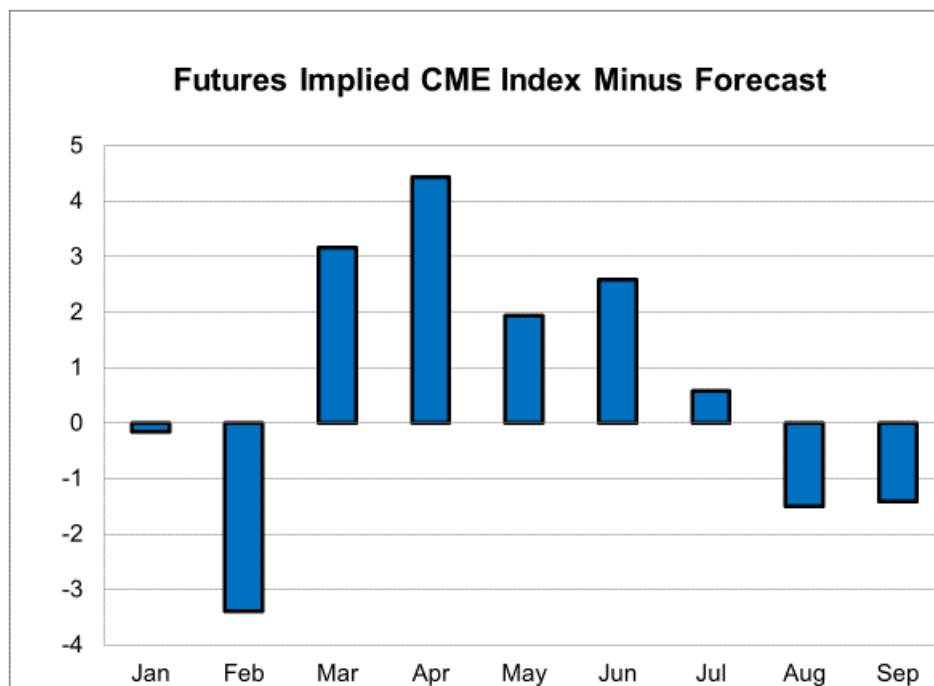
# Trading Hogs

## .... from a meat market perspective

A commentary by Kevin Bost

---

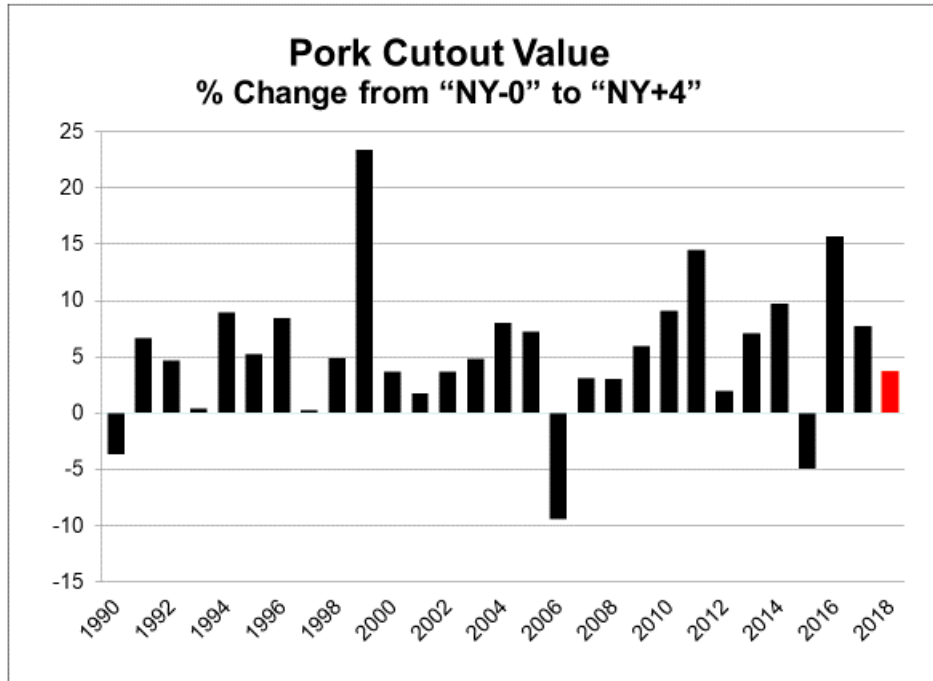
January 7, 2018



I am holding a short position in April hogs, which still appear to be substantially overvalued—just not as much as they did a week ago. What has changed in the outlook is the probability that pork demand will be somewhat stronger than I had previously reckoned.

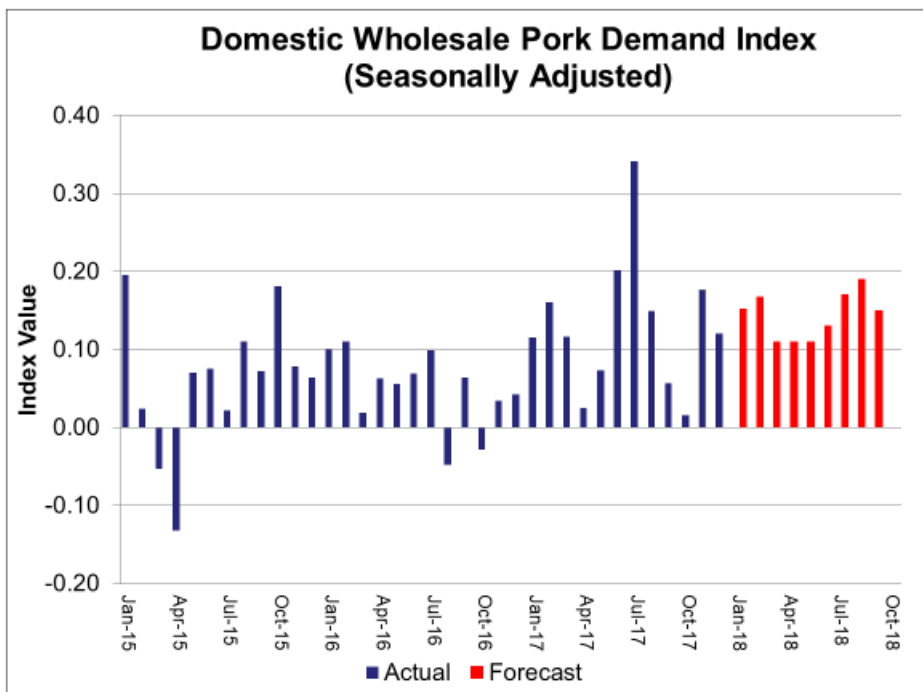
Clearly, wholesale pork demand is exceeding expectations here in January, even though we're only one week into a five-week month. I am simply trying to "read the writing on the wall". The real virtue of intense statistical work is to recognize changes in fundamental conditions in their early stages, so that I can respond quickly if need be. The historically upward bias in the cutout value between now and the end of the month is unmistakable and consistent, such that one must have a solid reason to bet against it. I do not. On the next page I show a picture of this history, along with my humble forecast. The rather timid appreciation that I am anticipating, combined with weekly kills averaging 2,435,000 over the next four weeks, point to a seasonally adjusted demand index that exceeds December's respectable reading. I also show this picture on the next page. In that graph, the first red bar represents January 2018.

Why should demand show an extraordinary decline from January to April this year? I have a hard time coming up with a good answer. For this reason, I am objectively raising my forecast of the average cutout value in April to \$79-\$80 per cwt, which still assumes that demand will "underperform" relative to the seasonal norm between now and then—just not outstandingly.



So why, then, am I still holding an outright short position? Well, as of tomorrow morning, I won't be. The April contract has managed two consecutive closes above \$76.00, which up to this point has been a major barrier. I cannot ignore this development.

However, the long February/short April spread has fundamental merit, and the discount of the February contract to the April contract is approaching the bottom of its two-month trading range. Thus, I will enter this spread tomorrow by buying February hogs. Mind you, I am not "spreading up" as a feeble (and rarely successful) alternative to stopping myself out of a short position; the outright short position and the spread are two different strategies. I am merely exiting one, and entering the other.



The second quarter futures contracts are, as best I can tell, a bit too optimistic, thus the short side of the April and June contracts is appealing. The CME Lean Hog Index was pretty yeasty this past week, and now (near \$67 per cwt)

stands about \$5.50 above its December low. I am told that the extremely cold temperatures have made producers reluctant to move hogs out of the barn and forced packers to pay up in an effort to coax them out. This makes sense to me. If that is indeed the case, then this past week's kill (2,151,000) was lighter than it could have been, and this rally could stall rather quickly. But the chart of the Index shows no resistance southward of \$70, and so this seems to be a reasonable target.

Forecasts:

	Jan*	Feb	Mar	Apr	May*	Jun
Avg Weekly Hog Sltr	2,434,000	2,377,000	2,373,000	2,362,000	2,323,000	2,278,000
Year Ago	2,361,900	2,327,100	2,326,700	2,285,400	2,250,200	2,183,400
Avg Weekly Barrow & Gilt Sltr	2,367,000	2,310,000	2,305,000	2,295,000	2,255,000	2,210,000
Year Ago	2,297,700	2,262,400	2,260,900	2,220,200	2,185,200	2,117,200
Avg Weekly Sow Sltr	61,000	60,000	61,000	60,000	61,000	61,000
Year Ago	59,900	58,400	58,900	58,100	57,900	58,800
Cutout Value	\$79.75	\$81.50	\$78.00	\$79.50	\$83.00	\$88.00
Year Ago	\$80.18	\$84.08	\$80.20	\$74.86	\$84.92	\$97.04
CME Lean Hog Index	\$69.00	\$74.75	\$72.00	\$71.50	\$78.50	\$82.50
Year Ago	\$63.80	\$74.16	\$71.50	\$62.60	\$72.28	\$86.09

*\*Slaughter projections exclude holiday-shortened weeks*

*Trading Hogs* is published weekly by Procurement Strategies Inc., 99 Gromer Road, Elgin IL 60120. For subscription information, please contact Kevin Bost at (847) 212-7523 (cell), (224) 227-6281 (office) or Kevin\_Bost@comcast.net; or visit our website at [www.procurementstrategiesinc.com](http://www.procurementstrategiesinc.com).

Information herein is derived from sources believed to be reliable, with no guarantee to its accuracy or completeness. Opinions expressed are subject to change without notice. Each investor must consider whether this is a suitable investment. All funds committed should be risk capital. Past performance is not necessarily indicative of future results.